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TAGS: ECON ETRD KTEX BR
SUBJECT: BRAZIL: INFORMATION ON TEXTILES AND APPAREL
PRODUCTION

Ref: State 114799

¶1. (U) Post sends this cable in response to information requested in reftel.

¶2. (U) Total 2006 industrial production in Brazil was approximately USD 284 billion. Through June, 2007 (latest available figures), total industrial production increased 6.7% over the same period in
¶2006.

¶3. (U) According to Brazilian Textile Industry Association (ABIT) figures, total Brazilian textile production in 2006 was USD 33 billion.

¶4. (U) In 2006, textiles and apparel accounted for 1.5% of Brazil's total exports and 2.41% of Brazil's 2006 total imports. As of October, 2007, textiles comprised 2.55% of Brazil's imports and 1.44% of its exports.

¶5. (U) Brazil exported USD 459.5 million in textiles and apparel to the U.S. in 2006, a decrease of over 9.7% from the previous year.

¶6. (U) As of December, 2006, approximately 12.5 million Brazilian workers were employed in manufacturing. ABIT figures show 1.65 million Brazilians employed in the textile and apparel industry.

¶7. (SBU) Below are answers to the additional information requested reftel.

-- Are host country producers receiving lower prices due to heightened international competition? Have manufacturers received more, less, or the same number of orders as in years past? Have foreign investors, particularly Asian investors, closed factories or otherwise pulled out of local production?

According to a representative of the Brazilian Textile Industry Association (ABIT), competition from lower priced imports, mainly Chinese, is depressing market prices and reducing Brazilian textile industry market share. The ABIT official alleged to EconOff that Chinese competitors have used under invoicing and smuggling as one method to reduce or avoid Brazilian tariffs and taxes. He said that ABIT began partnering with the Brazilian Customs authorities in May of this year to inspect textile and apparel shipments arriving at Brazilian ports for under invoicing and mislabeling. According to him, the result has been an increase of the average FOB on Chinese imports from USD 8/kilo in April, 2007 to around USD 16/kilo at the present.

Less overall orders from the U.S. have been partially offset by

increased textile and apparel exports to Brazil's Mercosul trading partners (including a 34.3% increase in textile exports to Mercosul aspirant Venezuela from 2005 to 2006). There have not been any significant closings of factories by foreign investors.

-- Have U.S. and EU restrictions on certain exports of textiles and apparel from China, effective through 2007/2008, affected export prospects for host country manufacturers?

This has not had a noticeable effect on the Brazilian textile industry.

-- Has the host government implemented, or is it considering implementing, safeguards or other measures to reduce growth of imports of Chinese textile and apparel products into the host country?

Brazil implemented a safeguard against certain Chinese exports in January, 2006 (including polyester filaments, silk fabrics, corduroy and knit shirts) that is due to expire in December 2008. Mercosul's average Common External Tariff (TEC) increased from 20% in 2006 to 35% in 2007 from 20% to 35% on most garments (including towels and sheets) and from 18% to 26% on most fabrics from 2006 to 2007.

-- Does the host government have policies or programs in place to deal with any dislocated workers in the sector resulting from increased competition?

Post is not aware of any such program.

-- Has increased global competition affected local labor conditions by causing employers to reduce wages, seek flexibility from government required minimum wages, or adversely affected union organizing?

Brazilian labor law is fairly inflexible and, as a result, unions and wages have not been noticeably affected in the formal industry, although the case for wage depression may be different in the informal industry.

-- Has the host government or private industry taken action to increase the country's competitiveness, such as improving infrastructure, reducing bureaucratic requirements, developing the textiles (fabric production) industry, moving to higher value-added goods, or identifying niche markets? Does post think that the host government or private industry's strategy will be successful?

Poor infrastructure, an oppressive tax regime and excessive bureaucracy have had a negative affect on the competitiveness of Brazilian industry as a whole. The Brazilian textile industry has attempted to address lower priced imports by attempting to move to higher-value niche markets such as swimwear and intimate apparel.

The ADIT official pointed out that the Brazilian textile industry continues to invest heavily in capital improvements. He noted that domestic demand, which he termed "generally poor" in the past has started to pick-up in the fourth quarter of this year. He attributed much of the improvement to social programs that provide cash payments to lower income families in Brazil and more disposable income among some in the middle class.

-- If your host government is a partner in a free trade agreement or a beneficiary of a preference program such as AGOA, CBTPA, CAFTA or ATPDEA, what impact does the program have on local sector industry competitiveness?

Brazil's partnership in the Mercosul customs union has helped increase its textile exports within the block, particularly to Argentina.

-- Overall, if not already addressed, does post think that the host country can be competitive in textiles and apparel exports given heightened global competition?

Realistically, the Brazilian textile industry may be hard-pressed to compete domestically or internationally with lower-cost imports over the long-run. There may be some high-value niche markets in which Brazilian industry will remain competitive both at home and abroad.

CHICOLA